

## Message Text

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PAGE 01 SEOUL 04842 080901Z  
ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05  
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00  
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03  
LAB-04 SIL-01 PA-01 /092 W  
-----110750 090442Z /21

R 080845Z JUL 78  
FM AMEMBASSY SEOUL  
TO SECSTATE WASHDC 1523

C O N F I D E N T I A L SEOUL 4842

DEPARTMENT PASS TREASURY

E.O. 11652: GDS  
TAGS: ECON, ECIN, EAIR, OVIP  
SUBJECT: LIBERALIZATION AS SEEN BY THE MINISTRY OF FINANCE

REF: A. SEOUL 4646, B. SEOUL 3966, C) SEOUL 3993,  
D. SEOUL 4126

1. AS BACKGROUND FOR CALL OF MINISTER OF FINANCE KIM ON  
TREASURY SECRETARY BLUMENTHAL (REF A), ECON/COMMERCIAL COUNSELOR  
DISCUSSED CURRENT VIEWS AND PLANS OF MOF WITH ASSISTANT MINISTER  
FOR INTERNATIONAL FINANCE CHUNG IN YONG.

2. CHUNG BEGAN BY NOTING THAT IMF WAS TAKING VIEW OF KOREA  
AS ADVANCED DEVELOPING COUNTRY, SIMILAR TO ASST. SEC. BERGSTEN  
REPORTED IN REF B, AND THAT IMF MISSION NOW HERE WAS EXPECTED  
TO RECOMMEND ACCELERATED IMPORT LIBERALIZATION OR REVALUATION  
OF THE KOREAN WON. HOWEVER, THEY WOULD NOT PUSH TOO HARD  
THIS YEAR AS THEY WERE AWARE THAT THE ROKG HAD STRONG  
INTERNAL DISAGREEMENTS; NEXT YEAR WOULD BE A DIFFERENT STORY.

3. CHUNG SAID THE POLICY FIGHTS WITHIN THE ROKG HAD CHANGED.  
LESS THAN A YEAR AGO, THE ADVOCATES OF IMPORT LIBERALIZATION  
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HAD BEEN LABELLED TRAITORS. NOW, THE ARGUMENT WAS NOT OVER  
WHETHER TO LIBERALIZE, BUT WHEN AND WHAT. CONSENSUS HAD BEEN  
REACHED ON THE PRINCIPLE AND NOW THE FIGHTS WOULD BE OVER  
WHICH INDUSTRY SHOULD FACE FOREIGN COMEPTITION FIRST. THIS  
WAS OBVIOUSLY A TOUGHT POLITICAL BATTLE THAT WOULD HAVE TO BE  
WAGED OVER THE COMING MONTHS. THE LIBERALIZATION STEPS TAKEN

SO FAR WERE NOT IMPORTANT FOR WHAT THEY DID TO INCREASE IMPORTS BUT FOR HOW THEY COMMITTED THE ROKG TO COMPLETE LIBERALIZATION IN THE NEXT FEW YEARS.

4. CHUNG INDICATED THAT IN THE MEANTIME HE HAD LARGELY LIBERALIZED INVISIBLES TRANSACTIONS, WITH THE NOTABLE EXCEPTION OF KOREAN TOURISM ABROAD. FOR EXAMPLE, THE PRESENT SYSTEM NO LONGER REQUIRED PRIOR APPROVAL, BUT ONLY A POST AUDIT TO MAKE SURE THE TRANSACTION WAS LEGITIMATE.

5. OVER THE LONGER RUN, CHUNG LOOKED FOR CAPITAL TRANSACTIONS TO BE LIBERALIZED AND FOR KOREA TO GO TO A FLOATING EXCHANGE RATE. A FIRST STEP IN THIS DIRECTION WAS THE FACT THAT MOF WOULD NO LONGER SET INTEREST RATE CEILINGS ON FOREIGN BORROWINGS (NOR WOULD IT, AS HE HAD JUST RECOMMENDED AS A LAST GESTURE OF THE SORT, DISAPPROVE OF THE JAPANESE FINANCING KAL JETS, ACTUALLY REPORTED IN REF C). ON THE OTHER HAND, HE EXPECTED TO CONTINUE TO THROW BUSINESS TO THE FOREIGN BANK BRANCHES, SO THAT THEY COULD BE REASONABLY PROFITABLE; IN THIS CONNECTION, HE WAS GOING TO CHANNEL SOME OF THE DOMESTIC USANCE BUSINESS TO THEM AND GIVE THEM A CHANCE TO REFINANCE PRIVATE LOANS AT THE NEW MORE FAVORABLE RATES, RATHER THAN LETTING THIS BUSINESS GO TO NON-RESIDENT BANKS (THIS "GOOD" NEWS HAS YET TO BE CONVEYED TO THE BRANCHES WHO ARE UNLIKELY TO BE OVERJOYED; ON THE OTHER HAND, CHUNG ARGUES THAT THE KOREAN COMPANIES CAN GET THE REFINANCING ON BETTER TERMS AND IT IS NOT UP TO THE ROKG TO PREVENT IT).  
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6. CHUNG HAD PURSUED ELIMINATING KOREAN BANK GUARANTEES FOR FOREIGN BANK LOANS BECAUSE THEY RAISED THE COST OF BORROWING SINCE THESE BANKS CHARGED A GUARANTEE FEE. EVENTUALLY, HE LOOKED FORWARD TO THE TIME WHEN THE MARKET PLACE WOULD COMPLETELY DETERMINE INTEREST RATES AND THE ROKG WAS ENTIRELY OUT OF THE PICTURE.

7. COMMENT: CHUNG, OR AT LEAST HIS MINISTER, HAVE NOT ALWAYS BEEN THE FREE MARKET ADVOCATES THEY NOW PORTRAY THEMSELVES AS. IT IS NEVERTHELESS USEFUL, WE THINK, TO TAKE THEM AT THEIR WORD AND TO ENCOURAGE THEIR SUPPORT OF MEASURES TENDING IN THIS DIRECTION. CHUNG'S CONVERSATION SEEMS TO INDICATE SOME NERVOUSNESS ABOUT THE MINISTER'S MEETING WITH SECRETARY BLUMENTHAL. WE ASSUME HE FEARS U.S. DEMANDS FOR MUCH MORE RAPID LIBERALIZATION, REINFORCED BY A THREAT OF ADDITIONAL EXPORT RESTRICTIONS BY KOREA'S MAJOR TRADING PARTNERS. SUCH THREATS WOULD BE WARRANTED, THEY MIGHT FEEL, BY THE FACT THAT LIBERALIZATION MEASURES TAKEN SO FAR HAVE NOT LED THUS FAR TO A SIGNIFICANT UPSURGE OF IMPORTS (THE FIRST QUARTER OF 1978 SHOWED A MEAGER \$20 MILLION CURRENT

ACCOUNT DEFICIT). THE VISIT (REF D) OF DEPUTY PRIME MINISTER  
NAM DUCK WOO MIGHT ALSO PRESENT A SUITABLE OCCASION TO REVIEW  
SOME OF THESE MATTERS.  
SNEIDER

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NNN

\*\*\* Current Handling Restrictions \*\*\* n/a

\*\*\* Current Classification \*\*\* CONFIDENTIAL

## Message Attributes

**Automatic Decaptioning:** X  
**Capture Date:** 01 jan 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FINANCE, IMPORTS, TRADE LIBERALIZATION  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 08 jun 1978  
**Decaption Date:** 01 jan 1960  
**Decaption Note:**  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 20 Mar 2014  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1978SEOUL04842  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** n/a  
**Expiration:**  
**Film Number:** D780240-0949  
**Format:** TEL  
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**Handling Restrictions:** n/a  
**Image Path:**  
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**Legacy Key:** link1978/newtext/t197806111/aaaafmol.tel  
**Line Count:** 124  
**Litigation Code IDs:**  
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**Office:** ACTION EA  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** n/a  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 3  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** n/a  
**Reference:** 78 SEOUL 4646, 78 SEOUL 3966, 78 SEOUL 3993, 78 SEOUL 4126  
**Retention:** 0  
**Review Action:** RELEASED, APPROVED  
**Review Content Flags:**  
**Review Date:** 17 may 2005  
**Review Event:**  
**Review Exemptions:** n/a  
**Review Media Identifier:**  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**SAS ID:** 2174767  
**Secure:** OPEN  
**Status:** <DBA CORRECTED> srp 970822  
**Subject:** LIBERALIZATION AS SEEN BY THE MINISTRY OF FINANCE  
**TAGS:** EAIR, ECIN, ECON, OVIP  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odb://SAS/SAS.dbo.SAS\_Docs/99254f7e-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014